The voices from the supermarket shelves – the language of competition

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Been to a supermarket recently? Did you hear the voices coming from the shelves? That's the products talking to you. And no, you are not mad!

The fact is that products communicate with us when we shop. They tell us what they are and, equally, what they are not. Branded products go further than this. They tell us what they represent – their quality, their reliability, their distinctiveness.

Why is this important and why should we listen to these voices? The fact that there are different voices – perhaps as many as 40,000 in a hypermarket – tells us as shoppers that we have choice. Each voice tells us what it is and why it should be picked and put in the trolley. But only the most attractive voices succeed: those emanating quality and value for money and which satisfy a need. The unattractive ones are, literally, left on the shelf.

Competition to gain shelf space

But making it to the shelf in the first place is a major feat. Shelf space is in relatively short supply. Not only do branded goods have to compete against rival branded goods for access but also against own-label products championed by the supermarket itself. This makes competition to gain access like a handicap hurdles race. The field is, in principle, wide open, with potentially many runners and riders, and the fittest should win. But branded goods producers are heavily handicapped. They must build up consumer demand if the supermarket is to stock their products. Unlike own-label producers, they must invest heavily in advertising and promotion to achieve this. The less well known the brand, then the more difficult it will be to build up consumer demand to gain access in the first place. But to become well known implies a history of product success and heavy investment.

Thus, competition to gain access, from a branded goods manufacturer's perspective, must be seen as both ongoing and for the long-term. The same is not true of own-label products which can for the most part free ride on branded goods producers' investments in building consumer demand. Own label products can rely on the supermarket itself for promotion – the careful juxtaposition next to branded goods and choice of shelf location – so that promotional costs for own label producers are a fraction of the cost for branded manufacturers. The own-label producer can even free ride on the brand producer's investment in product and packaging design, further reducing its costs while emphasising the relative handicap that brand producers must necessarily endure in competing to gain and then maintain presence on supermarket shelves.

But even in the face of this handicapping, and the many hurdles that must be overcome in designing, developing and supporting branded products, we still observe the widespread presence of branded goods (typically accounting for over 60% of UK supermarket sales). How is this possible? It can only be through one of two things. Firstly, consumers continue to recognise the value that such products offer. Secondly, even with all these handicaps, branded goods producers maintain a level of cost efficiency that allows them to be competitive with non-brand or retailer-brand producers.

In respect of the benefits to consumers of this competition, one only has to look at the effect on prices over the long run (which have consistently fallen in relative terms as producers have become more efficient) and product choice and quality (which has consistently increased, thanks to continued product investment).

Indeed, product investment itself is a key component of this competition. Brand producers can ill afford to stand still, but must continually strive to innovate for fear of being displaced from shelves. This is especially true in respect of launching new products – predominantly led by brand producers. With shelf space in fixed supply, at least in the short term, a new product invariably has to displace, if not replace, another product, perhaps from its own stable, to gain access to shelf space, implying some element of cannibalisation. The latter aspect involves the new displacing the old – so-called 'creative destruction' – which is both a necessary and, of course, a healthy aspect of competition, driving on change and product improvement to the benefit of consumers.

Competition in the face of retailer power

But a question must come about whether such healthy and vigorous competition can be maintained in the face of ever-increasing hurdles and handicaps facing brand producers. As supermarkets strive to increase their own profits they naturally look to see how much profit they can extract from the supply chain. The relentless drive to consolidation and concentration in the supermarket sector has made this task easier. If a retailer does not like the price it is quoted from a supplier it usually has a ready choice of alternative producers from which it can draw its supplies (or, at worst, can simply rearrange its shelf usage). The same flexibility and freedom does not apply to producers. If they lose a contract or are de-listed by the retailer, they have few, if any, alternatives they can pursue, given that contracts elsewhere are likely to be already tied up. This is fine from an economics perspective if it is just about the division of the profit cake, but not when it distorts competition. The latter can come about, for instance, when suppliers are forced to take prices

that do not fully cover their costs (thereby jeopardising their long-term viability) or innovation and product improvements are discouraged when the risks to producers outweigh the likely returns.

Yet, it is not just bargaining advantage in price negotiations that questions whether vigorous and healthy producer competition can be maintained. There are other practices that retailers may employ to shift the burden of business risk onto suppliers, extract further profits and generally distort competition. These have, of course, been extensively analysed by the Competition Commission in its supermarkets inquiry in 2000, with its findings supporting the basis of the OFT-backed Code of Practice on supermarkets' relationships with suppliers.

One practice particularly worthy of note concerns 'shelf space fees', where brand producers are obliged by the retailer to pay for the right to gain access to, and/or have a specific location on, supermarket shelves. This is not just a feature of the UK. In the US, for example, 'slotting allowances' have been the subject of a recent Federal Trade Commission inquiry. As concentration in the supermarket sector increases it is likely that retailers will be able to command even higher levels of these fees. This can be expected to have a particularly adverse effect on small brand producers – unable to meet these additional costs, but it will clearly have a more widespread effect as it will discourage innovation, especially since shelf-space fees are often applied to new goods.

A world without brands?

But if the end result is the weakening of brand competition and even the elimination of some brands, should we, as consumers, be concerned? Surely, own-label products can make up the difference and cover all our needs? Unfortunately, while own-label products themselves may have virtues, they lack two benefits that only branded goods can offer. First, brands offer pluralism – it is usual to find a wide variety of brands even in the same category and it is this variety that spurs on producers to keep innovating for the fear of being displaced. The result for consumers is both greater choice and an ever-improving offer. Second, brands offer price comparability – it is only with brands that one can really compare prices across stores, since only with brands can the consumer be absolutely sure that he/she is comparing exactly like with like. In the absence of brands offering such a direct and immediate means of price comparison it would be more difficult for the consumer to determine which store offers him/her the best value for money for the particular retail service on offer. Thus brands – particularly 'known-value items' (KVIs) – contribute to effective retail competition in a way that own-label items alone cannot.

The key point here is that brands offer the prospect of informed choice – in choosing which products to buy and from where – facilitating consumer confidence and ensuring that competition is maintained throughout the supply chain, right through to the final consumer. A world without brands would not only be a dreary place to live, but also a less competitive one!

So, next time you shop in your supermarket, be sure to listen for the voices from the shelves. Appreciate them speaking to you, allowing you to make an informed choice of what to buy and from where to buy. Brands might appear brash and boastful, but by shouting out loud they help to ensure the presence of healthy competition not only on their shelf but more generally across all supermarket shelves.

UK no longer a rip-off

A report into the cost of living by Dresdner Kleinwort Benson has found that the gap between London prices and the eurozone average has been wiped out by the fall of the pound against the euro. The recent report showed London prices to be now 2% less than the eurozone average.

Prices in the UK are particularly cheap for tea bags, nappies, washing-up liquid, shampoo, tampons and cosmetics.

The report highlights the significant impact of exchange rates in analysing price differences between countries.

Key brand dates

26th-27th January 2004, London
Legal Strategies for Pan-European Brand Enforcement
The Lawyer Conferences
www.centaur-conferences.co.uk

26th-27th January 2004, London
The Brands Summit 2004
Marketing Week Conferences
www.centaur-conferences.co.uk

29th March–1st April 2004, NEC Birmingham
Packaging Innovation Show
Reed Exhibitions www.totalpp.com

New free online branding guides!

A new resource has been launched to help everyone in companies understand and build stronger brands. The resource comprises seven e-guides on:

- Defining brands
- Types of brands
- How brands work
- Brand strategy
- Managing and revitalising brands
- Brand portfolio and architecture and
- Measuring brands and their performance.

The guides, launched by the Chartered Institute of Marketing in partnership with the British Brands Group, demystify brands and contain practical advice to help companies make the case for brands, get closer to customers and get results.

This unique resource can be found at www.cim.co.uk/brands. It is the only free, practical web-based guide on how to build brands.